

CHAPTER 1002

STATE TAXATION AND REVENUE — TAX RATES, CREDITS, AND EXEMPTIONS

H.F. 2317

AN ACT relating to state revenue and finance by modifying individual income tax rates, exemptions, and credits, corporate income tax rates and credits, credits against the franchise tax, the insurance premiums tax, and the moneys and credits tax, and the tax expenditure committee, making contingent transfers from the taxpayer relief fund, and including effective date and applicability provisions.

Be It Enacted by the General Assembly of the State of Iowa:

DIVISION I

SALE OF CERTAIN QUALIFIED STOCK — NET CAPITAL GAIN EXCLUSION

Section 1. [Section 422.7](#), Code 2022, is amended by adding the following new subsection: NEW SUBSECTION. 63. a. Subtract the following percentage of the net capital gain from the sale or exchange of capital stock of a qualified corporation for which an election is made by an employee-owner:

- (1) For the tax year beginning in the 2023 calendar year, thirty-three percent.
- (2) For the tax year beginning in the 2024 calendar year, sixty-six percent.
- (3) For tax years beginning on or after January 1, 2025, one hundred percent.

b. (1) An employee-owner is entitled to make one irrevocable lifetime election to exclude the net capital gain from the sale or exchange of capital stock of one qualified corporation which capital stock was acquired by the employee-owner while employed and on account of employment by such qualified corporation.

(2) The election shall apply to all subsequent sales or exchanges of qualifying capital stock of the elected corporation within fifteen years of the date of the election, provided that the subsequent sales or exchanges were of capital stock in the same qualified corporation and were acquired by the employee-owner while employed and on account of employment by such qualified corporation.

(3) The election shall apply to qualifying capital stock that has been transferred by inter vivos gift from the employee-owner to the employee-owner's spouse or to a trust for the benefit of the employee-owner's spouse following the transfer. This subparagraph (3) shall apply to a spouse only if the spouse was married to the employee-owner on the date of the sale or exchange or the date of death of the employee-owner.

(4) If the employee-owner dies after having sold or exchanged qualifying capital stock without having made an election under [this subsection](#), the surviving spouse or, if there is no surviving spouse, the personal representative of the employee-owner's estate, may make the election that would have qualified under [this subsection](#).

(5) The election shall be made in the manner and form prescribed by the department and shall be included with the taxpayer's state income tax return for the taxable year in which the election is made.

c. For purposes of [this subsection](#):

(1) "Capital stock" means common or preferred stock, either voting or nonvoting. "Capital stock" does not include stock rights, stock warrants, stock options, or debt securities.

(2) "Employee-owner" means an individual who owns capital stock in a qualified corporation for at least ten years, which capital stock was acquired by the individual while employed and on account of employment by such corporation for at least ten cumulative years.

(3) "Personal representative" means the same as defined in [section 633.3](#), or if there is no such personal representative appointed, then the person legally authorized to perform substantially the same functions.

(4) (a) "Qualified corporation" means, with respect to an employee-owner, a corporation which, at the time of the first sale or exchange for which an election is made by the employee-owner under [this subsection](#), meets all of the following conditions:

- (i) The corporation employed individuals in this state for at least ten years.

(ii) The corporation has had at least five shareholders for the ten years prior to the first sale or exchange under [this subsection](#).

(iii) The corporation has had at least two shareholders or groups of shareholders who are not related for the ten years prior to the first sale or exchange under [this subsection](#). Two persons are considered related when, under section 318 of the Internal Revenue Code, one is a person who owns, directly or indirectly, capital stock that if directly owned would be attributed to the other person, or is the brother, sister, aunt, uncle, cousin, niece, or nephew of the other person who owns capital stock either directly or indirectly.

(b) “*Qualified corporation*” includes any member of an Iowa affiliated group if the Iowa affiliated group includes a member that has employed individuals in this state for at least ten years. For purposes of this subparagraph division, “*Iowa affiliated group*” means an affiliated group that has made a valid election to file an Iowa consolidated income tax return under [section 422.37](#) in the year in which the deduction under [this subsection](#) is claimed. “*Member*” includes any entity included in the consolidated return under [section 422.37, subsection 2](#), for the tax year in which the deduction is claimed.

(c) “*Qualified corporation*” also includes any corporation that was a party to a reorganization that was entirely or substantially tax free if such reorganization occurred during or after the employment of the employee-owner.

Sec. 2. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 3. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION II RETIRED FARMER LEASE INCOME EXCLUSION

Sec. 4. [Section 422.7](#), Code 2022, is amended by adding the following new subsection:
NEW SUBSECTION. 21A. a. Subtract, to the extent included, net income received by an eligible individual pursuant to a farm tenancy agreement covering real property held by the eligible individual for ten or more years, if the eligible individual materially participated in a farming business for ten or more years.

b. An individual who elects to exclude income received pursuant to a farm tenancy agreement under [this subsection](#) shall not claim any of the following in the tax year in which the election is made or in any succeeding year:

(1) The capital gain exclusion under [subsection 21](#).

(2) The beginning farmer tax credit under [section 422.11E](#).

c. Married individuals who file separate state income tax returns shall allocate their combined annual exclusion limit to each spouse in the proportion that each spouse’s respective net income from a farm tenancy agreement bears to the total net income from a farm tenancy agreement.

d. The department shall establish criteria, by rule, relating to whether and how a surviving spouse may claim the income exclusion for which a deceased eligible individual would have been eligible under [this subsection](#).

e. Net income from a farm tenancy agreement earned, received, or reported by an entity taxed as a partnership for federal tax purposes, an S corporation, or a trust or estate is not eligible for the election and deduction in [this subsection](#), even if such net income ultimately passes through to an eligible individual.

f. For purposes of [this subsection](#):

(1) “*Eligible individual*” means an individual who is disabled or who is fifty-five years of age or older at the time the election is made, who no longer materially participates in a farming business at the time the election is made, and who, as an owner-lessor, is party to a farm tenancy agreement.

(2) “*Farm tenancy agreement*” means a written agreement outlining the rights and obligations of an owner-lessor and a tenant-lessee where the tenant-lessee has a farm tenancy as defined in [section 562.1A](#). A “*farm tenancy agreement*” includes cash leases, crop share leases, or livestock share leases.

(3) “*Farming business*” means the production, care, growing, harvesting, preservation, handling, or storage of crops or forest or fruit trees; the production, care, feeding, management, and housing of livestock; or horticulture, all intended for profit.

(4) “*Livestock*” means the same as defined in [section 717.1](#).

(5) “*Materially participated*” means the same as “*material participation*” in section 469(h) of the Internal Revenue Code.

Sec. 5. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 6. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION III RETIRED FARMER CAPITAL GAIN EXCLUSION

Sec. 7. [Section 422.7, subsection 21](#), Code 2022, is amended by striking the subsection and inserting in lieu thereof the following:

21. a. For purposes of [this subsection](#):

(1) “*Farming business*” means the production, care, growing, harvesting, preservation, handling, or storage of crops or forest or fruit trees; the production, care, feeding, management, and housing of livestock; or horticulture, all for intended profit.

(2) “*Held*” shall be determined with reference to the holding period provisions of section 1223 of the Internal Revenue Code and the federal regulations pursuant thereto.

(3) “*Livestock*” means the same as defined in [section 717.1](#).

(4) “*Materially participated*” means the same as “*material participation*” in section 469(h) of the Internal Revenue Code.

(5) (a) “*Real property used in a farming business*” means all tracts of land and the improvements and structures located on such tracts which are in good faith used primarily for a farming business. Buildings which are primarily used or intended for human habitation are deemed to be used in a farming business when the building is located on or adjacent to the parcel used in the farming business. Land and the nonresidential improvements and structures located on such land that shall be considered to be used primarily in a farming business include but are not limited to land, improvements or structures used for the storage or maintenance of farm machinery or equipment, for the drying, storage, handling, or preservation of agricultural crops, or for the storage of farm inputs, feed, or manure. Real property used in a farming business shall also include woodland, wasteland, pastureland, and idled land used for the conservation of natural resources including soil and water.

(b) Real property classified as agricultural property for Iowa property tax purposes, except real property described in [section 441.21, subsection 12](#), paragraph “a” or “b”, shall be presumed to be real property used in a farming business. This presumption is rebuttable by the department by a preponderance of evidence that the real property did not meet the requirements of subparagraph division (a).

(6) “*Relative*” means a person that satisfies one or more of the following conditions:

(a) The individual is related to the taxpayer by consanguinity or affinity within the second degree as determined by common law.

(b) The individual is a lineal descendent of the taxpayer. For purposes of this subparagraph division, “*lineal descendent*” means children of the taxpayer, including legally adopted children and biological children, stepchildren, grandchildren, great-grandchildren, and any other lineal descendent of the taxpayer.

(c) An entity in which an individual who satisfies the conditions of either subparagraph division (a) or (b) has a legal or equitable interest as an owner, member, partner, or beneficiary.

(7) “*Retired farmer*” means an individual who is disabled or who is fifty-five years of age or older and who no longer materially participates in a farming business when an exclusion and deduction is claimed under [this subsection](#).

b. Subtract the net capital gain from the sale of real property used in a farming business if one of the following conditions are satisfied:

(1) The taxpayer has materially participated in a farming business for a minimum of ten years and has held the real property used in a farming business for a minimum of ten years. If

the taxpayer is a retired farmer, the taxpayer is considered to meet the material participation requirement if the taxpayer materially participated in a farming business for ten years or more in the aggregate, prior to making an election under [this subsection](#).

(2) The taxpayer has held the real property used in a farming business which is sold to a relative of the taxpayer.

c. For a taxpayer who is a retired farmer, subtract the net capital gain from the sale of cattle or horses held by the taxpayer for breeding, draft, dairy, or sporting purposes for a period of twenty-four months or more from the date of acquisition; but only if the taxpayer materially participated in the farming business for five of the eight years preceding the farmer's retirement or disability and who has sold all or substantially all of the taxpayer's interest in the farming business by the time the election under this paragraph is made.

d. For a taxpayer who is a retired farmer, subtract the net capital gain from the sale of breeding livestock, other than cattle and horses, if the livestock is held by the taxpayer for a period of twelve months or more from the date of acquisition; but only if the taxpayer materially participated in the farming business for five of the eight years preceding the farmer's retirement or disability and who has sold all or substantially all of the taxpayer's interest in the farming business by the time the election under this paragraph is made.

e. A taxpayer who is a retired farmer may make, subject to the limitations described in paragraphs "f" and "g", a single, lifetime election to exclude all qualifying capital gains under paragraphs "b", "c", and "d".

f. A taxpayer who is a retired farmer who elects to exclude capital gains under paragraph "b", "c", or "d" shall not claim the beginning farmer tax credit under [section 422.11E](#) or the exclusion for net income received pursuant to a farm tenancy agreement in [subsection 21A](#), in the tax year in which this election is made or in any subsequent year.

g. A taxpayer who is a retired farmer who claims the beginning farmer tax credit under [section 422.11E](#) shall not, in the same year, make an election under [this subsection](#). A taxpayer who is a retired farmer and who elects to exclude the net income received from a farm tenancy agreement under [subsection 21A](#), shall not, in the same tax year or in any subsequent tax year, make the election under [this subsection](#).

h. Married individuals who file separate state income tax returns shall allocate their combined annual net capital gain exclusion under paragraphs "b", "c", and "d" to each spouse in the proportion that each spouse's respective net capital gain bears to the total net capital gain.

i. The department shall establish criteria, by rule, relating to whether and how a surviving spouse may claim the income exclusion for which a deceased retired farmer would have been eligible under [this subsection](#).

Sec. 8. REPEAL. [2018 Iowa Acts, chapter 1161, section 113](#), is repealed.

Sec. 9. REPEAL. [2019 Iowa Acts, chapter 162, section 1](#), is repealed.

Sec. 10. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 11. APPLICABILITY.

1. This division of this Act applies to tax years beginning on or after January 1, 2023.

2. This division of this Act applies to sales consummated on or after the effective date of this division of this Act, and sales consummated prior to the effective date of this division of this Act shall be governed by the law as it existed prior to the effective date of this division of this Act.

DIVISION IV INDIVIDUAL INCOME TAX RATES — TAX YEARS 2023-2025

Sec. 12. [Section 422.5, subsection 3](#), paragraph b, Code 2022, is amended to read as follows:

b. (1) In lieu of the computation in [subsection 1 or 2](#), or in paragraph "a" of [this subsection](#), if the married persons', filing jointly ~~or filing separately on a combined return~~, head of household's, or surviving spouse's net income exceeds thirteen thousand five

hundred dollars, the regular tax imposed under [this subchapter](#) shall be the lesser of the ~~maximum~~ alternate state individual income tax rate specified in subparagraph (2) times the portion of the net income in excess of thirteen thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the ~~husband and wife~~ spouses. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in [section 422.9, subsection 3](#).

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is 5.20 percent.

(ii) This subparagraph division (a) is repealed January 1, 2026.

(b) For tax years beginning on or after January 1, 2026, the alternate tax rate is 4.40 percent.

Sec. 13. [Section 422.5, subsection 3B](#), paragraph b, Code 2022, is amended to read as follows:

b. (1) In lieu of the computation in [subsection 1, 2, or 3](#), if the married persons', filing jointly or filing separately on a combined return, head of household's, or surviving spouse's net income exceeds thirty-two thousand dollars, the regular tax imposed under [this subchapter](#) shall be the lesser of the ~~maximum~~ alternate state individual income tax rate specified in subparagraph (2) times the portion of the net income in excess of thirty-two thousand dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the ~~husband and wife~~ spouses. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in [section 422.9, subsection 3](#).

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is 5.20 percent.

(ii) This subparagraph division (a) is repealed January 1, 2026.

(b) For tax years beginning on or after January 1, 2026, the alternate tax rate is 4.40 percent.

Sec. 14. [Section 422.5, subsection 6](#), Code 2022, is amended to read as follows:

6. a. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount set forth in [section 422.5A](#) by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year.

b. [This subsection](#) is repealed on January 1, 2026.

Sec. 15. [Section 422.5A](#), Code 2022, is amended by striking the section and inserting in lieu thereof the following:

422.5A Tax rates.

1. a. The tax imposed in [section 422.5](#) shall be calculated using the following rates in the following tax years in the case of married persons filing jointly:

(1) For the tax year beginning on or after January 1, 2023, but before January 1, 2024:

(a) On taxable income from 0 through \$12,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$12,000 but not exceeding \$60,000, the rate of 4.82 percent.

(c) On taxable income exceeding \$60,000 but not exceeding \$150,000, the rate of 5.70 percent.

(d) On taxable income exceeding \$150,000, the rate of 6.00 percent.

(2) For the tax year beginning on or after January 1, 2024, but before January 1, 2025:

(a) On taxable income from 0 through \$12,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$12,000 but not exceeding \$60,000, the rate of 4.82 percent.

(c) On taxable income exceeding \$60,000, the rate of 5.70 percent.

(3) For the tax year beginning on or after January 1, 2025, but before January 1, 2026:

(a) On taxable income from 0 through \$12,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$12,000, the rate of 4.82 percent.

b. The tax imposed in [section 422.5](#) shall be calculated using the following rates in the following tax years in the case of any other taxpayer other than married persons filing jointly:

(1) For the tax year beginning on or after January 1, 2023, but before January 1, 2024:

(a) On taxable income from 0 through \$6,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$6,000 but not exceeding \$30,000, the rate of 4.82 percent.

(c) On taxable income exceeding \$30,000 but not exceeding \$75,000, the rate of 5.70 percent.

(d) On taxable income exceeding \$75,000, the rate of 6.00 percent.

(2) For the tax year beginning on or after January 1, 2024, but before January 1, 2025:

(a) On taxable income from 0 through \$6,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$6,000 but not exceeding \$30,000, the rate of 4.82 percent.

(c) On taxable income exceeding \$30,000, the rate of 5.70 percent.

(3) For the tax year beginning on or after January 1, 2025, but before January 1, 2026:

(a) On taxable income from 0 through \$6,000, the rate of 4.40 percent.

(b) On taxable income exceeding \$6,000, the rate of 4.82 percent.

2. [This section](#) is repealed January 1, 2026.

Sec. 16. REPEAL. [2018 Iowa Acts, chapter 1161, section 107](#), is repealed.

Sec. 17. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 18. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION V INDIVIDUAL INCOME TAX — FLAT RATE

Sec. 19. [Section 421.27, subsection 9](#), paragraph a, subparagraph (3), Code 2022, is amended to read as follows:

(3) In the case of all other entities, including corporations described in [section 422.36, subsection 5](#), and all other entities required to file an information return under [section 422.15, subsection 2](#), the entity's Iowa net income after the application of the Iowa business activity ratio, if applicable, multiplied by the top income tax rate imposed under [section 422.5A 422.5](#) for the tax year, less any Iowa tax credits available to the entity.

Sec. 20. [Section 422.5, subsection 1](#), paragraph a, Code 2022, is amended to read as follows:

a. A tax is imposed upon every resident and nonresident of the state which tax shall be levied, collected, and paid annually upon and with respect to the entire taxable income as defined in [this subchapter](#) at rates as provided in [section 422.5A](#) a rate of three and nine-tenths percent.

Sec. 21. [Section 422.16B, subsection 2](#), paragraph a, Code 2022, is amended to read as follows:

a. (1) A pass-through entity shall file a composite return on behalf of all nonresident members and shall report and pay the income or franchise tax imposed under [this chapter](#) at the maximum state income or franchise tax rate applicable to the member under [section 422.5A 422.5](#), [422.33](#), or [422.63](#) on the nonresident members' distributive shares of the income from the pass-through entity.

(2) The tax rate applicable to a tiered pass-through entity shall be the ~~maximum~~ state income tax rate under [section 422.5A 422.5](#).

Sec. 22. [Section 422.25A, subsection 5](#), paragraph c, subparagraphs (3), (4), and (5), Code 2022, are amended to read as follows:

(3) Determine the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to nonresident individual partners and nonresident fiduciary partners and allocate and apportion such adjustments as provided in [section 422.33](#) at the partnership or tiered partner level, and multiply the resulting amount by the ~~maximum~~ individual income tax rate pursuant to [section 422.5A 422.5](#) for the reviewed year.

(4) For the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to tiered partners:

(a) Determine the amount of such adjustments which are of a type that would be subject to sourcing to Iowa under [section 422.8, subsection 2](#), paragraph "a", as a nonresident, and then determine the portion of this amount that would be sourced to Iowa under those provisions as if the tiered partner were a nonresident.

(b) Determine the amount of such adjustments which are of a type that would not be subject to sourcing to Iowa under [section 422.8, subsection 2](#), paragraph "a", as a nonresident.

(c) Determine the portion of the amount in subparagraph division (b) that can be established, as prescribed by the department by rule, to be properly allocable to indirect partners that are nonresident partners or other partners not subject to tax on the adjustments.

(d) Multiply the total of the amounts determined in subparagraph divisions (a) and (b), reduced by any amount determined in subparagraph division (c), by the ~~highest~~ individual income tax rate pursuant to [section 422.5A 422.5](#) for the reviewed year.

(5) For the total distributive share of all final federal partnership adjustments and positive reallocation adjustments as modified by [this title](#) that are reported to resident individual partners and resident fiduciary partners, multiply that amount by the ~~highest~~ individual income tax rate pursuant to [section 422.5A 422.5](#) for the reviewed year.

Sec. 23. EFFECTIVE DATE. This division of this Act takes effect January 1, 2026.

Sec. 24. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2026.

DIVISION VI RETIREMENT INCOME

Sec. 25. [Section 422.5, subsection 3](#), paragraph a, Code 2022, is amended to read as follows:

a. The tax shall not be imposed on a resident or nonresident whose net income, as defined in [section 422.7](#), is thirteen thousand five hundred dollars or less in the case of married persons filing jointly or filing separately on a combined return, heads of household, and surviving spouses or nine thousand dollars or less in the case of all other persons; but in the event that the payment of tax under [this subchapter](#) would reduce the net income to less than thirteen thousand five hundred dollars or nine thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirteen thousand five hundred dollars or nine thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of [this subsection](#), the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. ~~For purposes of this subsection, net income includes all amounts of pensions~~

or other retirement income, except for military retirement pay excluded under [section 422.7, subsection 31A](#), paragraph “a”, or [section 422.7, subsection 31B](#), paragraph “a”, received from any source which is not taxable under [this subchapter](#) as a result of the government pension exclusions in [section 422.7](#), or any other state law. If the combined net income of a husband and wife exceeds thirteen thousand five hundred dollars, neither of them shall receive the benefit of [this subsection](#), and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirteen thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in [section 422.9, subsection 3](#). A person who is claimed as a dependent by another person as defined in [section 422.12](#) shall not receive the benefit of [this subsection](#) if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person’s spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.

Sec. 26. [Section 422.5, subsection 3B](#), paragraph a, Code 2022, is amended to read as follows:

a. The tax shall not be imposed on a resident or nonresident who is at least sixty-five years old on December 31 of the tax year and whose net income, as defined in [section 422.7](#), is thirty-two thousand dollars or less in the case of married persons filing jointly or filing separately on a combined return, heads of household, and surviving spouses or twenty-four thousand dollars or less in the case of all other persons; but in the event that the payment of tax under [this subchapter](#) would reduce the net income to less than thirty-two thousand dollars or twenty-four thousand dollars as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of thirty-two thousand dollars or twenty-four thousand dollars as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of [this subsection](#), the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of [this subsection](#), net income includes all amounts of pensions or other retirement income, except for military retirement pay excluded under [section 422.7, subsection 31A](#), paragraph “a”, or [section 422.7, subsection 31B](#), paragraph “a”, received from any source which is not taxable under [this subchapter](#) as a result of the government pension exclusions in [section 422.7](#), or any other state law. If the combined net income of a husband and wife exceeds thirty-two thousand dollars, neither of them shall receive the benefit of [this subsection](#), and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of thirty-two thousand dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in [section 422.9, subsection 3](#). A person who is claimed as a dependent by another person as defined in [section 422.12](#) shall not receive the benefit of [this subsection](#) if the person claiming the dependent has net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable or the person claiming the dependent and the person’s spouse have combined net income exceeding thirty-two thousand dollars or twenty-four thousand dollars as applicable.

Sec. 27. [Section 422.7, subsection 31](#), Code 2022, is amended to read as follows:

31. ~~a. For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under [this subsection](#) for the tax year, subtract~~ Subtract, to the extent included, the total amount of received from a governmental or other pension or retirement pay plan, including, ~~but not limited to,~~ defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand

dollars for a husband and wife who file a joint state income tax return. However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other spouse. A husband and wife filing separate state income tax returns or separately on a combined state return are allowed a combined maximum exclusion under [this subsection](#) of up to twelve thousand dollars. The twelve thousand dollar exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received received by a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or is a survivor having an insurable interest in an individual who would have qualified for the exemption under [this subsection](#) for the tax year.

b. Married taxpayers who file separate state income tax returns shall allocate their combined annual exclusion amount to each spouse in the proportion that each spouse's respective income received from a pension or retirement plan bears to the total combined pension or retirement pay received.

c. A taxpayer who is not disabled or fifty-five years of age or older and who receives pension or retirement pay as a surviving spouse or as a survivor with an insurable interest in an individual who would have qualified for the exemption for the tax year may only exclude the amount received from a pension or retirement plan in the tax year as a result of the death of the decedent.

Sec. 28. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 29. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION VII RESEARCH ACTIVITIES TAX CREDIT

Sec. 30. [Section 15.335, subsection 4](#), paragraph a, Code 2022, is amended to read as follows:

a. In lieu of the credit amount computed in [subsection 2](#), an eligible business may shall elect to compute the credit amount for qualified research expenses incurred in this state in a manner consistent with the alternative simplified credit described in section 41(c)(4) of the Internal Revenue Code if the taxpayer elected or was required to use the alternative simplified credit method for federal income tax purposes for the same taxable year. The taxpayer may make this election regardless of the method used for the taxpayer's federal income tax. The election made under this paragraph is for the tax year and the taxpayer may use another or the same method for any subsequent tax year.

Sec. 31. [Section 15.335, subsection 5](#), Code 2022, is amended to read as follows:

5. The credit allowed in [this section](#) is in addition to the credit authorized in [section 422.10](#) and [section 422.33, subsection 5](#). However, if the alternative credit computation method is used in [section 422.10](#) or [section 422.33, subsection 5](#), the credit allowed in [this section](#) shall also be computed using that method. The regular or alternative credit allowed in [this section](#) shall be computed according to the same claim, calculation, and refund limitations in [section 422.10](#) and [section 422.33, subsection 5](#), as applicable, including those described in [section 422.10, subsection 1, paragraph "a"](#), and [section 422.10, subsection 1, paragraph "b"](#), subparagraph (3), and [section 422.10, subsection 4](#), and those described in [section 422.33, subsection 5, paragraph "b"](#), subparagraph (2), and [section 422.33, subsection 5, paragraphs "e" and "g"](#).

Sec. 32. [Section 15.335, subsection 8](#), Code 2022, is amended to read as follows:

8. a. Any The following percentage of any credit in excess of the tax liability for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph "e":

(1) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety-five percent.

(2) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, ninety percent.

(3) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, eighty-five percent.

(4) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, eighty percent.

(5) For tax years beginning on or after January 1, 2027, seventy-five percent.

b. In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on its final, completed return credited to the tax liability for the following tax year.

Sec. 33. [Section 422.10, subsection 1](#), paragraph a, Code 2022, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (3) The credit provided in [this section](#) is claimed on a return filed by the due date for filing the return, including extensions of time. If timely claimed, the business shall not increase the credit claim on an amended return or otherwise unless either of the following apply:

(a) The amended return is filed within six months of the due date for filing the return which includes extensions of time.

(b) The increase results from an audit or examination by the internal revenue service or the department.

Sec. 34. [Section 422.10, subsection 1](#), paragraph b, Code 2022, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (3) For the purpose of calculating the state's apportioned share of the qualifying expenditures for increasing research activities in subparagraph (2), the following criteria shall apply only to the determination of qualified research expenditures in this state:

(a) Wages paid to an employee for qualified services, or contract research expenses paid to a third party for the performance of qualified research services, shall only constitute qualified research expenses in this state if the services are performed in this state, and if the following conditions are met, as applicable:

(i) For qualified services performed by employees, during the period of the tax year that the business is engaging in one or more research projects, a majority of the total services performed by the employee for the business are directly related to those research projects.

(ii) For the performance of qualified research services by a third party, during the period of the business's tax year that the third party is performing research services for the business, a majority of the total services performed by the person for the third party are directly related to those research projects of the business.

(b) The substantially all rule for determining qualified services as described in section 41(b)(2)(B) of the Internal Revenue Code and [Treas. Reg. 1.41-2\(d\)\(2\)](#) does not apply.

(c) Amounts paid for the right to use computers as described in section 41(b)(2)(A)(iii) of the Internal Revenue Code shall not be qualified research expenses in this state.

(d) For tax years beginning on or after January 1, 2023, but before January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall only constitute qualified research expenses in this state if the supplies directly relate to research performed in this state and shall be limited to the following allowable percentages:

(i) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, eighty percent of the amounts paid for supplies directly related to research performed in this state.

(ii) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, sixty percent of the amounts paid for supplies directly related to research performed in this state.

(iii) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, forty percent of the amounts paid for supplies directly related to research performed in this state.

(iv) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, twenty percent of the amounts paid for supplies directly related to research performed in this state.

(e) For tax years beginning on or after January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall not be qualified research expenses in this state.

Sec. 35. [Section 422.10, subsection 1](#), paragraphs c and d, Code 2022, are amended to read as follows:

c. In lieu of the credit amount computed in paragraph “b”, subparagraph (1), subparagraph division (a), a taxpayer ~~may~~ shall elect to compute the credit amount for qualified research expenses incurred in this state in a manner consistent with the alternative simplified credit described in section 41(c)(4) of the Internal Revenue Code if the taxpayer elected or was required to use the alternative simplified credit method for federal income tax purposes for the same taxable year. The taxpayer may make this election regardless of the method used for the taxpayer’s federal income tax. The election made under this paragraph is for the tax year and the taxpayer may use another or the same method for any subsequent year.

d. For purposes of the alternate credit computation method in paragraph “c”, the following criteria shall apply:

(1) The credit percentages applicable to qualified research expenses described in section 41(c)(4)(A) and clause (ii) of section 41(c)(4)(B) of the Internal Revenue Code are four and fifty-five hundredths percent and one and ninety-five hundredths percent, respectively.

(2) Basic research payments and qualified research expenses shall only include amounts for research conducted in this state. A taxpayer’s qualified research expenses in this state and average prior year qualified research expenses in this state shall be determined in accordance with the criteria in [subsection 1](#), paragraph “b”, subparagraph (3).

Sec. 36. [Section 422.10, subsection 3](#), paragraph b, Code 2022, is amended to read as follows:

b. For purposes of [this section](#), “*basic research payment*” and “*qualified research expense*” mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, ~~except that for the alternative simplified credit such amounts are for research conducted within this state as otherwise described in [subsection 1](#), paragraph “b”, subparagraph (3), and [subsection 1](#), paragraph “d”, subparagraph (2).~~

Sec. 37. [Section 422.10, subsection 4](#), Code 2022, is amended to read as follows:

4. ~~a. (1) Any~~ The following percentage of any credit in excess of the tax liability imposed by [section 422.5](#) less the amounts of nonrefundable credits allowed under [this subchapter](#) for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph “e”:

(a) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety percent.

(b) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, eighty percent.

(c) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, seventy percent.

(d) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, sixty percent.

(2) In lieu of claiming a refund pursuant to this paragraph, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer’s final, completed return credited to the tax liability for the following taxable year.

b. Commencing with tax years beginning on or after January 1, 2027, fifty percent of any credit in excess of the tax liability imposed by [section 422.5](#) less the amounts of nonrefundable credits allowed under [this subchapter](#) for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph “e”. In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer’s final, completed return credited to the tax liability for the following taxable year.

c. In applying the credit in [this section](#) against tax liability and computing the eligible refund amount, the credit shall be applied after all nonrefundable credits available to the

taxpayer are applied, but before any other refundable credit available to the taxpayer is applied.

Sec. 38. [Section 422.33, subsection 5](#), paragraph b, Code 2022, is amended to read as follows:

b. (1) The state's apportioned share of the qualifying expenditures for increasing research activities is a percent equal to the ratio of qualified research expenditures in this state to the total qualified research expenditures.

(2) For the purpose of calculating the state's apportioned share of the qualifying expenditures for increasing research activities in subparagraph (1), the following criteria shall apply only to the determination of qualified research expenditures in this state:

(a) Wages paid to an employee for qualified services, or contract research expenses paid to a third party for the performance of qualified research services, shall only constitute qualified research expenses in this state if the services are performed in this state, and if the following conditions are met, as applicable:

(i) For qualified services performed by employees, during the period of the tax year that the business is engaging in one or more research projects, a majority of the total services performed by the employee for the business are directly related to those research projects.

(ii) For the performance of qualified research services by a third party, during the period of the business's tax year that the third party is performing research services for the business, a majority of the total services performed by the person for the third party are directly related to those research projects of the business.

(b) The substantially all rule for determining qualified services as described in section 41(b)(2)(B) of the Internal Revenue Code and [Treas. Reg. 1.41-2\(d\)\(2\)](#) does not apply.

(c) Amounts paid for the right to use computers as described in section 41(b)(2)(A)(iii) of the Internal Revenue Code shall not be qualified research expenses in this state.

(d) For tax years beginning on or after January 1, 2023, but before January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall only constitute qualified research expenses in this state if the supplies directly relate to research performed in this state and shall be limited to the following allowable percentages:

(i) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, eighty percent of the amounts paid for supplies directly related to research performed in this state.

(ii) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, sixty percent of the amounts paid for supplies directly related to research performed in this state.

(iii) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, forty percent of the amounts paid for supplies directly related to research performed in this state.

(iv) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, twenty percent of the amounts paid for supplies directly related to research performed in this state.

(e) For tax years beginning on or after January 1, 2027, amounts paid for supplies as defined in section 41(b)(2)(C) of the Internal Revenue Code shall not be qualified research expenses in this state.

Sec. 39. [Section 422.33, subsection 5](#), paragraphs c and d, Code 2022, are amended to read as follows:

c. In lieu of the credit amount computed in paragraph "a", subparagraph (1), a corporation may ~~shall~~ elect to compute the credit amount for qualified research expenses incurred in this state in a manner consistent with the alternative simplified credit described in section 41(c)(4) of the Internal Revenue Code if the taxpayer elected or was required to use the alternative simplified credit method for federal income tax purposes for the same taxable year. ~~The taxpayer may make this election regardless of the method used for the taxpayer's federal income tax. The election made under this paragraph is for the tax year and the taxpayer may use another or the same method for any subsequent year.~~

d. For purposes of the alternate credit computation method in paragraph "c", the following criteria shall apply:

(1) The credit percentages applicable to qualified research expenses described in section 41(c)(4)(A) and clause (ii) of section 41(c)(4)(B) of the Internal Revenue Code are four and fifty-five hundredths percent and one and ninety-five hundredths percent, respectively.

(2) Basic research payments and qualified research expenses shall only include amounts for research conducted in this state. A taxpayer's qualified research expenses in this state and average prior year qualified research expenses in this state shall be determined in accordance with the rules in paragraph "b", subparagraph (2).

Sec. 40. [Section 422.33, subsection 5](#), paragraph e, Code 2022, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (3) The credit provided in [this subsection](#) is claimed on a return filed by the due date for filing the return, including extensions of time. If timely claimed, the business shall not increase the credit claim on an amended return or otherwise unless either of the following apply:

(a) The amended return is filed within six months of the due date for filing the return which includes extensions of time.

(b) The increase results from an audit or examination by the internal revenue service or the department.

Sec. 41. [Section 422.33, subsection 5](#), paragraph f, subparagraph (2), Code 2022, is amended to read as follows:

(2) For purposes of [this subsection](#), "basic research payment" and "qualified research expense" mean the same as defined for the federal credit for increasing research activities under section 41 of the Internal Revenue Code, ~~except that for the alternative simplified credit such amounts are for research conducted within this state as otherwise described in paragraph "b", subparagraph (2), and paragraph "d", subparagraph (2).~~

Sec. 42. [Section 422.33, subsection 5](#), paragraph g, Code 2022, is amended to read as follows:

g. (1) ~~(a) Any~~ The following percentage of the credit in excess of the tax liability for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph "e":

(i) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety percent.

(ii) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, eighty percent.

(iii) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, seventy percent.

(iv) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, sixty percent.

(b) In lieu of claiming a refund pursuant to this subparagraph, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on its final, completed return credited to the tax liability for the following taxable year.

(2) Commencing with tax years beginning on or after January 1, 2027, fifty percent of any credit in excess of the tax liability for the taxable year shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph "e". In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on its final, completed return credited to the tax liability for the following taxable year.

(3) In applying the credit in [this subsection](#) against tax liability and computing the eligible refund amount, the credit shall be applied after all nonrefundable credits available to the taxpayer are applied, but before any other refundable credit available to the taxpayer is applied.

Sec. 43. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 44. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION VIII
OTHER TAX CREDITS

Sec. 45. [Section 15.119, subsection 2](#), paragraph a, Code 2022, is amended by adding the following new subparagraph:

NEW SUBPARAGRAPH. (3) In allocating tax credits pursuant to [this subsection](#), the authority shall prioritize issuing additional research activities tax credits pursuant to [section 15.335](#).

Sec. 46. [Section 15.293A, subsection 1](#), paragraph c, subparagraph (2), Code 2022, is amended to read as follows:

(2) (a) A tax credit in excess of the taxpayer's liability for the tax year is refundable if all of the following conditions are met:

(a) (i) The taxpayer is an investor making application for tax credits provided in [this section](#) and is an entity organized under [chapter 504](#) and qualifying under section 501(c)(3) of the Internal Revenue Code as an organization exempt from federal income tax under section 501(a) of the Internal Revenue Code.

(a) (ii) The taxpayer establishes during the application process described in [section 15.293B](#) that the requirement in subparagraph division (a) is satisfied. The authority, when issuing a certificate to a taxpayer that meets the requirements in this subparagraph (2), shall indicate on the certificate that such requirements have been satisfied.

(b) For a tax credit deemed refundable pursuant to subparagraph division (a), the following percentage of the tax credit in excess of the taxpayer's liability for the tax year is refundable:

(i) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety-five percent.

(ii) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, ninety percent.

(iii) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, eighty-five percent.

(iv) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, eighty percent.

(v) For tax years beginning on or after January 1, 2027, seventy-five percent.

Sec. 47. [Section 15.293A, subsection 2](#), paragraph d, Code 2022, is amended to read as follows:

d. Tax credit certificates issued under [this section](#) may be transferred to any person or entity, except a tax credit certificate that is refundable under [subsection 1](#), paragraph "c", subparagraph (2), shall not be transferable. Within ninety days of transfer, the transferee shall submit the transferred tax credit certificate to the department of revenue along with a statement containing the transferee's name, tax identification number, and address, the denomination that each replacement tax credit certificate is to carry, and any other information required by the department of revenue.

Sec. 48. [Section 15E.305, subsection 2](#), paragraph a, Code 2022, is amended to read as follows:

a. The maximum amount of tax credits granted to a taxpayer shall not exceed five percent one hundred thousand dollars of the aggregate amount of tax credits authorized.

Sec. 49. [Section 15.331C, subsection 1](#), Code 2022, is amended to read as follows:

1. a. An eligible business may claim a tax credit in an amount equal to the sales and use taxes paid by a third-party developer under [chapter 423](#) for gas, electricity, water, or sewer utility services, goods, wares, or merchandise, or on services rendered, furnished, or performed to or for a contractor or subcontractor and used in the fulfillment of a written contract relating to the construction or equipping of a facility of the eligible business. Taxes attributable to intangible property and furniture and furnishings shall not be included, but taxes attributable to racks, shelving, and conveyor equipment to be used in a warehouse or distribution center shall be included. ~~Any credit in excess of the tax liability for the tax year may be credited to the tax liability for the following seven years or until depleted, whichever~~

~~occurs earlier.~~ An eligible business may elect to receive a refund as a refund the following percentage of all or a portion of ~~an unused any~~ tax credit in excess of the tax liability as follows:

(1) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety-five percent.

(2) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, ninety percent.

(3) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, eighty-five percent.

(4) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, eighty percent.

(5) For tax years beginning on or after January 1, 2027, seventy-five percent.

b. In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer's final, completed return credited to the tax liability for the following seven years or until depleted, whichever occurs earlier.

Sec. 50. [Section 404A.2, subsection 4](#), Code 2022, is amended to read as follows:

4. a. For a tax credit claimed by an eligible taxpayer or a transferee for qualified rehabilitation projects with agreements entered into on or after July 1, 2014, the following percentage of any credit in excess of the taxpayer's tax liability for the tax year may be refunded or, at the taxpayer's election, credited to the taxpayer's tax liability for the following five years or until depleted, whichever is earlier:

(1) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety-five percent.

(2) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, ninety percent.

(3) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, eighty-five percent.

(4) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, eighty percent.

(5) For tax years beginning on or after January 1, 2027, seventy-five percent.

b. In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer's final, completed return credited to the tax liability for the following five tax years or until depleted, whichever is earlier.

c. A tax credit shall not be carried back to a tax year prior to the tax year in which the taxpayer redeems the tax credit. As used in [this subsection](#), "taxpayer" includes an eligible taxpayer or a person transferred a tax credit certificate pursuant to [subsection 3](#).

Sec. 51. [Section 422.12N](#), Code 2022, is amended by adding the following new subsections:

NEW SUBSECTION. 6. [This section](#) does not apply to a geothermal heat pump installation occurring after December 31, 2023.

NEW SUBSECTION. 7. [This section](#) is repealed January 1, 2034.

Sec. 52. [Section 422.33, subsection 9](#), paragraph a, Code 2022, is amended to read as follows:

a. (1) The taxes imposed under [this subchapter](#) shall be reduced by an assistive device tax credit. A small business purchasing, renting, or modifying an assistive device or making workplace modifications for an individual with a disability who is employed or will be employed by the small business is eligible, subject to availability of credits, to receive this assistive device tax credit which is equal to fifty percent of the first five thousand dollars paid during the tax year for the purchase, rental, or modification of the assistive device or for making the workplace modifications. ~~Any~~ The following percentage of any credit in excess of the tax liability shall be refunded with interest in accordance with [section 421.60, subsection 2](#), paragraph "e", as follows:

(a) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, ninety-five percent.

(b) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, ninety percent.

(c) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, eighty-five percent.

(d) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, eighty percent.

(e) For tax years beginning on or after January 1, 2027, seventy-five percent.

(2) In lieu of claiming a refund, a taxpayer may elect to have the overpayment otherwise eligible for a refund shown on the taxpayer's final, completed return credited to the tax liability for the following tax year. If the small business elects to take the assistive device tax credit, the small business shall not deduct for Iowa tax purposes any amount of the cost of an assistive device or workplace modifications which is deductible for federal income tax purposes.

Sec. 53. PRESERVATION OF EXISTING RIGHTS. This division of this Act is not intended to and shall not limit, modify, or otherwise adversely affect any amount of tax credit issued, awarded, or allowed prior to January 1, 2023, nor shall it limit, modify, or otherwise adversely affect a taxpayer's right to claim or redeem a tax credit issued, awarded, or allowed prior to January 1, 2023, including but not limited to any tax credit carryforward amount.

Sec. 54. EFFECTIVE DATE. This division of this Act takes effect January 1, 2023.

Sec. 55. APPLICABILITY. This division of this Act applies to tax years beginning on or after January 1, 2023.

DIVISION IX CORPORATE INCOME TAX RATES — ADJUSTMENTS

Sec. 56. [Section 422.33, subsection 1](#), Code 2022, is amended to read as follows:

1. a. A tax is imposed annually upon each corporation doing business in this state, or deriving income from sources within this state, in an amount computed by applying the following rates of taxation to the net income received by the corporation during the income year:

a. (1) On the first twenty-five thousand dollars of taxable income, or any part thereof, the rate of six percent for tax years beginning prior to January 1, 2021, and the rate of five and one-half percent for tax years beginning on or after January 1, 2021.

b. (2) On taxable income between twenty-five thousand dollars and one hundred thousand dollars or any part thereof, the rate of eight percent for tax years beginning prior to January 1, 2021, and the rate of five and one-half percent for tax years beginning on or after January 1, 2021.

c. (3) On taxable income between one hundred thousand dollars and two hundred fifty thousand dollars or any part thereof, the rate of ten percent for tax years beginning prior to January 1, 2021, and the rate of nine percent for tax years beginning on or after January 1, 2021.

d. (4) On taxable income of two hundred fifty thousand dollars or more, the rate of twelve percent for tax years beginning prior to January 1, 2021, and the rate of nine and eight-tenths percent for tax years beginning on or after January 1, 2021.

b. (1) (a) Notwithstanding paragraph "a", the department of management and the department of revenue shall determine corporate income tax rates as provided in this paragraph. A tax rate in [this subsection](#) shall remain in effect until the tax rate is adjusted pursuant to this paragraph.

(b) By November 1, 2022, and by November 1 each year thereafter, the department of management shall determine the net corporate income tax receipts for the fiscal year preceding the determination date. If net corporate income tax receipts for the preceding fiscal year exceed seven hundred million dollars, the department of revenue shall adjust and apply new corporate income tax rates as provided in subparagraph (2).

(2) (a) If a determination has been made that net corporate income tax receipts for the preceding fiscal year exceeded seven hundred million dollars, the department of revenue shall adjust the tax rates specified in paragraph “a”, subparagraphs (3) and (4), and apply the adjusted rates for tax years beginning on or after the next January 1 following the determination date.

(b) (i) The tax rates subject to adjustment shall be adjusted in such a way that when combined with all the other rates specified in paragraph “a”, the tax rates would have generated net corporate income tax receipts that equal seven hundred million dollars in the preceding fiscal year.

(ii) When adjusting the tax rates, the tax rates shall be adjusted as follows:

(A) The tax rate in effect that corresponds with the specified tax rate in paragraph “a”, subparagraph (4), shall first be adjusted but not below the tax rate in effect that corresponds with the specified rate in paragraph “a”, subparagraph (3).

(B) If after the adjustment in subparagraph part (A) is made, and an additional adjustment is necessary, the tax rates that correspond with the rates specified in paragraph “a”, subparagraphs (3) and (4), shall be adjusted on an equal basis.

(iii) The tax rates adjusted pursuant to this paragraph shall not be adjusted below five and one-half percent.

(iv) The tax rates, when adjusted, shall be rounded down to the nearest one-tenth of one percent.

(3) If a tax rate is adjusted pursuant to this paragraph, the director of revenue shall cause an advisory notice containing the new corporate tax rates to be published in the Iowa administrative bulletin and on the internet site of the department of revenue. The calculation and publication of the adjusted tax rate by the director of revenue is exempt from [chapter 17A](#), and shall be submitted for publication by the first December 31 following the determination date to adjust the tax rates.

DIVISION X CORPORATE INCOME TAX — FLAT RATE

Sec. 57. [Section 422.33, subsection 1](#), Code 2022, is amended by striking the subsection and inserting in lieu thereof the following:

1. A tax is imposed annually upon each corporation doing business in this state, or deriving income from sources within this state, in an amount computed by applying the rate of five and one-half percent to the net income received by the corporation during the income year.

Sec. 58. CONTINGENT EFFECTIVE DATE. This division of this Act takes effect on the first January 1 after each rate of taxation on the net income received by a corporation is equalized to equal five and one-half percent pursuant to [section 422.33, subsection 1](#), paragraph “b”, as amended by this Act. The director of revenue shall inform the Code editor upon the occurrence of this contingency.

Sec. 59. APPLICABILITY. This division of this Act applies to tax years beginning on or after the effective date of this division of this Act.

DIVISION XI TAX EXPENDITURE COMMITTEE

Sec. 60. [Section 2.45, subsection 5](#), Code 2022, is amended by striking the subsection.

Sec. 61. [Section 2.48, subsections 1 and 2](#), Code 2022, are amended by striking the subsections and inserting in lieu thereof the following:

1. As used in [this section](#), “tax expenditure” means an exclusion from the operation or collection of a tax imposed in this state. Tax expenditures include tax credits, exemptions, deductions, and rebates. Tax expenditures also include sales tax refunds issued pursuant to [section 423.3](#) or [423.4](#).

2. *a.* (1) The department administering a tax expenditure described in [subsection 3](#) shall engage in a review of the tax expenditure based upon the schedule in [subsection 3](#). If multiple departments administer the tax expenditure, the departments shall cooperate in the review.

(2) The review shall consist of evaluating any tax expenditure described in [subsection 3](#) and assess its equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the legislation that enacted the tax expenditure, as those issues pertain to taxation in Iowa.

b. (1) The department shall file a report detailing the review with the general assembly no later than December 15 of the year the credit is scheduled to be reviewed in [subsection 3](#).

(2) The report may include recommendations for better aligning tax expenditures with the original intent of the legislation that enacted the tax expenditure.

Sec. 62. [Section 2.48, subsection 3](#), unnumbered paragraph 1, Code 2022, is amended to read as follows:

The ~~committee~~ applicable department shall review the following tax expenditures and incentives according to the following schedule:

Sec. 63. [Section 2.48, subsection 4](#), Code 2022, is amended to read as follows:

4. ~~Subsequent additional review.~~ A tax expenditure or incentive reviewed pursuant to [subsection 3](#) shall be reviewed again not more than five years after the tax expenditure or incentive was most recently reviewed.

DIVISION XII TAXPAYER RELIEF FUND CONTINGENT TRANSFERS

Sec. 64. [Section 8.54, subsection 5](#), Code 2022, is amended to read as follows:

5. *a.* For fiscal years in which it is anticipated that the distribution of moneys from the Iowa economic emergency fund in accordance with [section 8.55, subsection 2](#), will result in moneys being transferred to the general fund of the state, the original state general fund expenditure limitation amount provided for in [subsection 3](#) shall be readjusted to include the amount of moneys anticipated to be so transferred.

b. For fiscal years in which it is anticipated that moneys will be transferred from the taxpayer relief fund to the general fund of the state in accordance with [section 8.57E, subsection 2](#), paragraph “b”, the original state general fund expenditure limitation amount provided for in [subsection 3](#) shall be readjusted to include the amount of moneys anticipated to be so transferred. This paragraph is repealed on the date that [section 8.57E, subsection 2](#), paragraph “b”, is repealed.

Sec. 65. [Section 8.57E, subsection 2](#), Code 2022, is amended to read as follows:

2. *a.* ~~Moneys~~ Except as otherwise provided in [this section](#), moneys in the taxpayer relief fund shall only be used pursuant to appropriations or transfers made by the general assembly for tax relief, ~~including but not limited to increases in the general retirement income exclusion under [section 422.7, subsection 31](#), or reductions in income tax rates.~~

b. (1) For the fiscal year beginning July 1, 2023, and for each fiscal year thereafter, if the actual net revenue for the general fund of the state for the fiscal year plus the amount transferred to the general fund of the state under [section 8.55, subsection 2](#), paragraph “b”, for the fiscal year, if any, is less than one hundred three and one-half percent of the actual net revenue for the general fund of the state for the prior fiscal year, there is transferred from the taxpayer relief fund to the general fund of the state an amount equal to the difference or the remaining balance of the taxpayer relief fund, whichever is lower, subject to subparagraph (2).

(2) The transfer made under subparagraph (1) shall not exceed an amount necessary to increase the ending balance of the general fund of the state for the fiscal year to one percent of the adjusted revenue estimate, as defined in [section 8.54](#), for the fiscal year.

(3) This paragraph is repealed on the date the remaining balance of the taxpayer relief fund is transferred to the general fund of the state under subparagraph (1).

Approved March 1, 2022